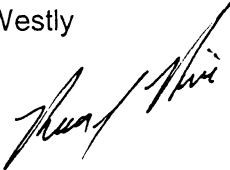


Memorandum

To : Honorable John Chiang, Chair
Honorable Claude Parrish, Vice Chairman
Ms. Betty T. Yee, Acting Board Member
Honorable Bill Leonard
Honorable Steve Westly

Date: February 3, 2005

From : Ramon J. Hirsig
Executive Director



Subject : **Electronic Services Update**

This is to provide you with an update on the Board of Equalization's (BOE) electronic services programs, specifically electronic filing (e-filing) and to discuss future initiatives.

Background

E-filing is a process that allows taxpayers to use a personal computer with Internet access to electronically file their tax return and submit payment information.

- In January 2001, the current e-filing program for sales and use taxes was implemented
- Two third-party service providers are presently partnered with the BOE to offer e-filing to taxpayers:
 - efileSalesTax.com** (cost \$4.95)
 - FileYourTaxes.com** (cost \$9.95 with first three filings free)
- Approximately 700,000 taxpayers (single outlet retailers) are eligible to e-file
- Taxpayers can file a current tax return and make an electronic payment at time of filing
- Accepted payment method is Electronic Funds Transfer (EFT) Automated Clearing House (ACH) debit
- In fiscal year 2003-04, the BOE received 8,063 e-filed returns for a total of \$5.9 million
- In the first half of fiscal year 2004-05 (July through December), the BOE received 7,218 e-filed returns for a total of \$6.7 million

Business Opportunity

Using an incremental approach, the BOE can increase the number of taxpayers that e-file and thereby maximize efficiencies by reducing the cost of processing and storing paper returns. Attached is a proposed flow chart that incorporates the development of an in-house e-filing option at no cost to the taxpayer.

- Available to current eligible taxpayer base (700,000 single outlet retailers)
- Easy to use Internet application
- Voluntary participation
- Real time processing of taxpayer returns
- On-line help functionality
- Taxpayers can choose to continue receiving paper return forms
- Continue partnership with service providers that offer additional electronic features such as:
 - E-filing in Spanish
 - Automatic due date reminders via e-mail
 - Access to tax return filing history
- BOE customer service representatives can assist taxpayers with completion of tax return by viewing the same type of screen taxpayer is utilizing
- Reduction in the number of paper returns to process could result in faster posting of all taxpayer information

Current Status

BOE has made great strides in developing the foundation for an in-house e-filing system. Recent legislation and the resulting program changes have enabled an e-client framework to be developed that allows only authorized taxpayers to access their accounts.

- In December 2004, program staff completed the process of identifying business requirements

Next Steps

Based on the business requirements identified during the joint application development sessions, listed below are the next steps.

- Screen design development begins - February/March 2005
- Full implementation - December 2005
- Marketing plan development:
 - Return instructions
 - Third sheet flyers
 - New e-file logo and advertising
 - Article in the Taxpayer Information Bulletin
 - Pamphlets
 - BOE Website
 - Small Business Fair and Tax Return Preparation Class presentations

Future Initiatives for E-Filing

- Acceptance of other electronic forms of payment (e.g., credit cards, debit cards, ACH credit)
- Allow for the filing of prepayment and multiple outlet sales and use tax accounts
- Offer additional electronic features such as automatic due date reminders and access to filing history
- Allow for the filing of special taxes returns and forms

While use of the current e-filing system has been somewhat limited, it is estimated that by providing a no cost option, the BOE can expect to see an annual increase of approximately 10% in the number of returns e-filed by eligible taxpayers. Development of an in-house system and offering a no cost, easy to use e-filing option, allows the BOE to continue to make a positive step forward in its commitment to provide high quality customer service, maximizing the use of well-qualified staff and state-of-the-art technology.

RJH:rz:mlm
E-fileupdate.doc

Attachment

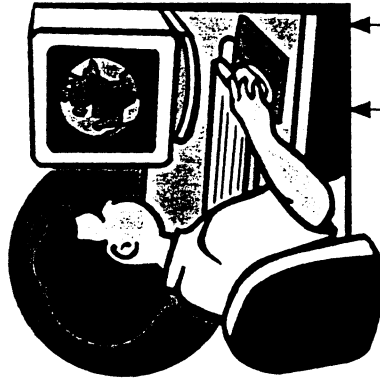
cc: Executive Team
Mr. Jeff McGuire
Ms. Michelle Maciel
Ms. Susanne Buehler

Proposed Electronic Filing (E-Filing) Program

eFile

State Board of Equalization

www.boe.ca.gov



1. Taxpayer logs onto the Board of Equalization's (BOE) website.
2. Taxpayer chooses a third-party service provider or the *boe-file*, links to the appropriate website completes their return, and submits their payment information through service provider or *boe-file*.
3. Taxpayer's account number and return period are validated by the BOE.
4. Taxpayer's return and payment information is entered and transmitted to the BOE through the chosen service provider or via the *boe-file*.
5. Taxpayer receives a confirmation number for proof that their return was successfully e-filed.

2. Third-Party Service
Provider's Website

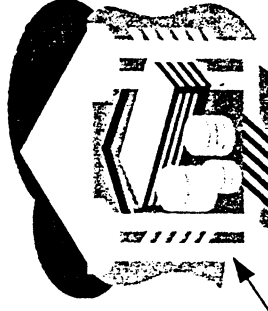
or
3. *boe-file*

efileSalesTax.com
Electronic Sales and Use Tax, Inc

boe-file

Validation
Confirmation

State Processes
*Automated
Clearinghouse (ACH)
Debit Transaction



BOE's
Mainframe
Computer

3. Account Number and Return Period Validation
4. Tax Return and Payment Information
5. Confirmation of Filing Number